



State sues teachers' union for securities fraud

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Indiana Secretary of State Todd Rokita's office sued the Indiana State Teachers Association for securities fraud Wednesday, saying the teachers' union is unable to account for \$23 million in funds.

The lawsuit is the latest problem to arise out of the ISTA Insurance Trust, which collapsed this summer after massive investment losses.

Filed in Marion Superior Court, the lawsuit alleges that ISTA offered unregistered securities to dozens of Indiana school corporations when it promised to create an insurance fund both pay their health claims and generate a return on the fund's reserves. ISTA officials acted as investment advisers without the proper licenses, according to the lawsuit, which also accuses them of co-mingling money meant for health benefits with other funds, including payments to a long-term disability plan.

The suit alleges the co-mingling led ISTA officials to lose track of \$23 million.

ISTA spokesman Mark Shoup said it is "premature" to directly respond to the suit's allegations. He stressed that the ISTA is paying its 650 members who are covered by the long-term disability benefits plan.

The ISTA insurance trust also provided health benefits to more than 2,000 teachers. Their benefits are now being administered by the local office of UnitedHealthcare, a Minnesota-based health insurer.

"We continue to make the payments, and do what's best for them," he said. "We're just trying to pick up the pieces and move forward and do right by the people who have depended on the trust."

However, Rokita and his securities division chief, Chris Naylor, want a judge to freeze ISTA's finances and appoint a receiver to account for all the school corporations' invested funds. They asked for the freeze not to stop the distribution of the long-term disability benefits.

"The latest evidence indicates that ISTA is now offering these Indiana school corporations pennies on the dollar in an effort to wipe away their liability," said Rokita in a statement. "The purpose of this action is to request that an independent third party be assigned to ensure transparent accounting and equitable distribution of any remaining funds, while not interrupting any payments being made to disabled teachers."

In May, the Indiana Department of Insurance cracked down on the ISTA Insurance trust after an investigation found the value of the trust's investments had plunged 55 percent in the previous 20 months, leaving it \$67 million short of its liabilities.

After the revelations, ISTA's parent organization, the National Education Association, assumed temporary control of the state-level operations—though not of its local affiliates. Rokita's lawsuit also names the NEA as a defendant.

The Insurance Department faulted ISTA's former executive director, Warren Williams, and the trust's investment adviser, Morgan Stanley's David Karandos.

During a nine-month stretch last year, Karandos made 4,000 trades involving the ISTA trust's investments. He also put large portions of the trust's assets in hard-to-sell investments, such as stakes in private-equity deals and hedge funds.

Karandos and Williams made all investment decisions for the trust, according to a report by Indianapolis-based Noble Consulting Services, which examined the trust at the request of the Indiana Department of Insurance.